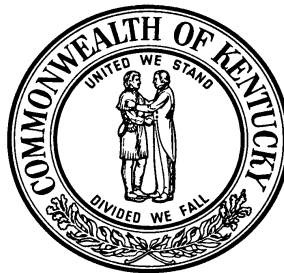


**REPORT OF THE AUDIT OF THE
FORMER TODD COUNTY
CLERK**

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER TODD COUNTY CLERK

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the former Todd County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$7,111 from the prior year, resulting in excess fees of \$40,345 as of December 31, 2010. Revenues increased by \$175,675 from the prior year and expenditures increased by \$168,564.

Report Comment:

2010-01 The Former County Clerk's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, Payroll, And Reconciliations

Deposits:

The former County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Daryl Greenfield, Todd County Judge/Executive
The Honorable Billy Fowler, Former Todd County Clerk
Members of the Todd County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Todd County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 3, 2011 on our consideration of the former Todd County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Daryl Greenfield, Todd County Judge/Executive
The Honorable Billy Fowler, Former Todd County Clerk
Members of the Todd County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Former County Clerk's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, Payroll, And Reconciliations

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Todd County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 3, 2011

TODD COUNTY
 BILLY FOWLER, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State Grants		\$	11,106
State Fees For Services			66,029
Fiscal Court			3,522
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	535,721	
Usage Tax		731,248	
Tangible Personal Property Tax		716,879	
Lien Fees		5,728	
Licenses-			
Marriage		3,657	
Deed Transfer Tax		27,889	
Delinquent Taxes		106,656	2,127,778
Fees Collected for Services:			
Recordings-			
Deeds, Easements and Contracts		8,296	
Real Estate Mortgages		6,197	
Chattel Mortgages and Financing Statements		29,766	
Powers of Attorney		680	
Affordable Housing Trust		10,836	
All Other Recordings		15,648	
Charges for Other Services-			
Candidate Filing Fees		2,300	
Notary Fees		912	
Copywork		2,383	77,018
Other:			
IRS Payment		375	
Miscellaneous		190	565
Interest Earned			1,481
Total Revenues			2,287,499

The accompanying notes are an integral part of this financial statement.

TODD COUNTY
 BILLY FOWLER, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 418,336

Usage Tax 709,247

Tangible Personal Property Tax 262,945

Licenses, Taxes, and Fees-

Delinquent Tax 16,510

Legal Process Tax 10,188

Affordable Housing Trust 10,836 \$ 1,428,062

Payments to Fiscal Court:

Tangible Personal Property Tax 54,659

Delinquent Tax 10,948

Deed Transfer Tax 26,515 92,122

Payments to Other Districts:

Tangible Personal Property Tax 371,125

Delinquent Tax 45,539 416,664

Payments to Sheriff

9,061

Payments to County Attorney

13,931

Operating Expenditures:

Personnel Services-

Deputies' Salaries 101,920

Employee Benefits-

Employer's Share Social Security 13,045

Employer's Share Retirement 30,636

Employer's Paid Health Insurance 23,307

Contracted Services-

Printing and Binding 2,049

Materials and Supplies-

Office Supplies 13,001

The accompanying notes are an integral part of this financial statement.

TODD COUNTY
 BILLY FOWLER, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures (Continued)

Operating Expenditures (Continued):

Other Charges-

Conventions and Travel	\$	2,006	
Postage		2,881	
Bond		263	
Utilities		841	
Scanning		11,106	
Miscellaneous		2,931	
			<u>\$ 203,986</u>

Total Expenditures			<u>\$ 2,163,826</u>
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Net Revenues			123,673
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Less: Statutory Maximum			<u>76,104</u>
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Excess Fees			47,569
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Less: Expense Allowance		3,600	
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Training Incentive Benefit		<u>3,624</u>	<u>7,224</u>
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Excess Fees Due County for 2010			40,345
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Payments to Fiscal Court - February 11, 2011		39,835	
April 8, 2011		<u>454</u>	<u>40,289</u>

Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 56</u></u>
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The accompanying notes are an integral part of this financial statement.

TODD COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Former County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

TODD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Todd County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Former County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Former County Clerk's deposits may not be returned. The former Todd County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

TODD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 4. Grant

The former Todd County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$11,106. Funds totaling \$11,106 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2010.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Daryl Greenfield, Todd County Judge/Executive
The Honorable Billy Fowler, Former Todd County Clerk
Members of the Todd County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Todd County Clerk for the year ended December 31, 2010, and have issued our report thereon dated June 3, 2011. The former County Clerk's financial statement was prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Todd County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Todd County Clerk's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Todd County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 3, 2011

COMMENT AND RECOMMENDATION

TODD COUNTY
BILLY FOWLER, FORMER COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The Former County Clerk's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, Payroll, And Reconciliations

During our review of internal controls, we noted the former County Clerk's office lacked adequate segregation of duties. The bookkeeper prepared reports, reconciled checking accounts, collected receipts, prepared deposits, prepared ledgers, reconciled ledgers, and prepared disbursements. She also prepared all payroll disbursements and reports.

Segregation of duties over daily checkout procedures, deposit preparation, posting to the ledgers, monthly bank reconciliation, payroll preparation, and disbursement of checks or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

Documented compensating controls were not in place to offset this control deficiency. If a proper segregation of duties was not possible, the following compensating controls could have been implemented:

- The County Clerk could have documented approval of the monthly tax reports.
- A co-signature could have been required on all checks.
- Receipts and disbursements ledgers could have been checked and approved by someone other than the preparer. This could have been documented by initialing the ledgers.
- Bank reconciliations could have been checked and approved by someone other than the preparer of the reconciliation. This could have been documented on the bank reconciliation by initialing the bank statement.
- The County Clerk could have documented his review of all payroll reports.

Former County Clerk's Response: No Response.

